BOSTON EDISON COMPANY

Direct Testimony of Rose Ann Pelletier

Exhibit BEC-RAP

D.T.E. 00-82

I. INTRODUCTION

Q. Ms. Pelletier, please state your name and business address?

A. My name is Rose Ann Pelletier. My business address is 800 Boylston Street, Boston, Massachusetts.

Q. By whom are you employed and in what capacity?

A. Currently, I am Director of Transmission and Power Contract Administration for NSTAR Services Company. In that capacity, I am responsible for coordinating and managing issues associated with power and transmission purchase and sales contracts for Boston Edison Company ("Boston Edison" or the "Company"), Cambridge Electric Light Company and Commonwealth Electric Company.

Q. Please describe your educational background and business experience.

A. I graduated from Providence College in 1977 earning a Bachelor's degree in Economics and from Boston College in 1979 with a Master's degree in Economics. In 1980, I joined Boston Edison as a research analyst in the Rates Department. Subsequently, I have held positions as Fuel Rate Analyst, Fuel Rate Administrator, Fuel Rate and Unit Performance Administrator, and Manager of Power Contracts.

Q. Have you previously testified in proceedings before this commissions?

A. Yes, I have testified in a number of proceedings before the Department, most recently in support of Boston Edison's 1999 annual true-up filing, D.T.E. 99-107.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide support for the Company's request for approval of the proposed Standard Offer Service rate to become effective January 1, 2001. My testimony also requests approval of the 1999 reconciliation of Standard Offer and Default Service expenses and revenues.

Q. What rate is the Company proposing for Standard Offer Service for the year 2001?

A. The Company proposes a total charge for Standard Offer Service for 2001 of 4.902 cents per kilowatt-hour ("kwh") consisting of a base rate charge of 3.8 cents per kwh and a surcharge of 1.102 cents per kwh. I should note that my testimony does not address any Standard Offer Service Fuel Adjustment for 2001, which would be a separate adjustment subject to a separate filing or filings with the Department. See D.T.E. 00-70.

Q. Please explain how that rate is derived.

A. The Restructuring Settlement Agreement (the "Restructuring Settlement") approved by the Department in Boston Edison Company, D.P.U./D.T.E. 96-23 specifies the rates that may be charged for Standard Offer Service each year through 2004. Restructuring Settlement, § I.B.1(d). For the year 2001, the scheduled rate for Standard Offer Service is 3.8 cents per kwh. In the event that the revenues collected from Standard Offer Service do not recover the costs incurred to provide that service, the Restructuring Settlement permits the Company to implement a surcharge to offset any such undercollections. As described below, the Company has a significant deferral balance for Standard Offer Service, and the surcharge will offset or help to recover some of that undercollection. In accordance with a settlement (the "Reconciliation Settlement") filed jointly by Boston Edison and the Division of Energy Resources and as described in the testimony of Henry C. LaMontagne, the Company proposes that the surcharge for Standard Offer Service be priced at 1.102 cents per kwh for the year 2001. I note that an even larger surcharge would be justified in order to recover the accumulated Standard Offer Service deferral balance; however, the amount of the surcharge is limited by the overall inflation-adjusted rate reduction requirements of the Electric Restructuring Act. Applying a 1.102 cents per kwh surcharge would result in a total rate for Standard Offer Service for 2001 of 4.902 cents per kwh before application of the Standard Offer Service Fuel Adjustment.

Q. Please explain Exhibits BEC-RAP-1, BEC-RAP-2 and BEC-RAP-3.

A. These three exhibits are the reconciliation of Standard Offer and Default Service, showing both supply and costs for the three years 1998, 1999 and 2000. Each exhibit is arranged in the same manner. On page 1, the total deferral balance is shown for each month of the respective year. Page 2 shows the revenues and costs each month for Standard Offer Service. It adds or subtracts the monthly over- or under-recovery to the prior month balance, adjusts for a carrying charge and calculates the new end-of-month deferral. Page 3 is the same as page 2, except that it calculates the monthly deferral for Default Service rather than for Standard Offer

Service. Page 4 shows the transfer costs from Boston Edison owned supply – namely purchase power contracts and Company owned generation. The transfer prices for Boston Edison owned generation for the period prior to divestiture are governed by the Restructuring Settlement. The utilization of the transfer prices for Boston Edison's purchase power contracts implements the provisions of the Reconciliation Settlement. Page 5 shows the costs for short-term power transactions. Page 6 shows the gwh associated with the short-term transactions detailed on page 5. Page 7 shows the wholesale revenue credits – both revenues and kwh. Page 8 shows the revenues for Standard Offer Service and Default Service. Page 9 shows the interest calculation for the Standard Offer Service deferred balance. Page 10 shows the interest calculation for the Default Service deferred balance.

Q. The Company previously reconciled costs and revenues for 1998 in D.T.E. 99-107. Why is an exhibit being filed for 1998 in this docket?

A. The 1998 ending balances, the deferrals, are the beginning balances for the 1999 reconciliation. Also, I want to correct some relatively minor computational errors in the 1998 reconciliation, which were recently discovered and which, when corrected, reduce the ending balances by $317,000.

Q. Please explain those computational errors.

A. The errors in the original 1998 reconciliation, filed in D.T.E. 99-107 as Exhibit BEC-8, occurred on pages 10 and 11, relating to the interest calculations associated with the deferrals for Standard Offer Service and Default Service. On page 13 of that exhibit, the Company calculated the interest on the Standard Offer

Stabilization Fund ("SOSF") through November 30, 1998. On page 10 of the same exhibit, in the column for December, $117.7 million of the SOSF is reflected, however the interest calculated was incorrect. On page 11 of the same exhibit, the remaining SOSF amount of $4.7 million was omitted and the interest calculation is incorrect.

The exhibit for 1998, Exhibit BEC-RAP-1, included in this filing corrects these errors. Page 9 of that exhibit portrays the interest calculation associated with the Standard Offer Service deferral. In the column for December, $117.7 million of the SOSF is reflected. The cumulative interest for the 1998 period totals $2.884 million. Page 10 identifies the interest calculation associated with the Default Service deferral. In the column for December, $4.7 million of the SOSF has been reflected. The cumulative interest for the 1998 period totals $87,000.

The interest amounts calculated on pages 9 and 10 are then reflected on pages 2 and 3, respectively. The resulting Standard Offer Service deferral at year-end is $24.435 million; the Default Service deferral at year-end is $2.938 million.

Q. What is the source for Standard Offer and Default Service revenues shown in Exhibits BEC-RAP-1, BEC-RAP-2 and BEC-RAP-3?

A. The revenues through August 2000 for Standard Offer and Default Service are taken from the Company's general ledger; forecast revenues are reflected for the September through December 2000 period. It was assumed the Standard Offer Service rate, including surcharge, remains 4.5 cents per kwh through

November 30, 2000 and then increases on December 1, 2000 to 5.081 cents per kwh. The assumed increase in December is related to the Company's pending Standard Offer Service Fuel Adjustment.

Q. How did the Company calculate expenses for Standard Offer Service as shown in this filing for 1999 and 2000?

A. There are five types of expenses: nuclear, power purchase contracts including NUGs, short-term, wholesale and Default Service.

1. Nuclear expenses have been calculated in accordance with Attachment 3, Section 2.7(b) of the Restructuring Settlement; that is, the actual nuclear generation was adjusted by losses and then multiplied by the rate to be paid to suppliers of 3.5 cents per kwh during 1999. Boston Edison sold Pilgrim in July 1999, and, after that date there were no more transfer prices for nuclear production. After the divestiture, the supply from Pilgrim was by way of purchase power contracts from Entergy (the buyer of Pilgrim) that were approved by the Department in D.T.E. 98-119.

2. 1999 Purchase Power or NUG expenses have been calculated in accordance with Section 2.4(a) of the Reconciliation Settlement. That is, the actual NUG generation was adjusted by losses and then multiplied by the Restructuring Settlement Standard Offer Service price of 3.1 cents per kwh.

2000 Purchase Power or NUG expenses have been calculated in accordance with Sections 2.4(b) and 2.5 of the Reconciliation Settlement. That is, the actual NUG generation was adjusted by losses and then multiplied by the Restructuring Settlement Standard Offer Service price of 3.4 cents per kwh.

The December 2000 expenses were further adjusted by applying the Standard Offer Fuel Adjustment to that generation whose costs are variable, that is, generation purchased under long-term contracts with non-fixed prices.

3. Short-term expenses are the net expenses the Company incurs to complete the necessary supply portfolio.

4. The wholesale revenue credit is consistent with the Company's filing in D.T.E. 99-107. That is, it represents the energy (fuel) revenue received on a monthly basis from the Company's sales to various wholesale customers.

5. Expenses associated with Default Service have been reflected as a reduction to total expense.

Q. How did the Company calculate expenses for Default Service in this filing?

A. To date, the Company has used one supply portfolio to support both Standard Offer and Default Service. Given the Department's recent orders in Docket D.T.E. 99-60, it is expected that the Default Service supply will be acquired through a separate solicitation and priced in accordance with such solicitation. For 1998 through 2000, however, it was necessary to calculate a Default Service expense for purposes of allocating the cost of power between Standard Offer and Default Service.

In 1998, the Company allocated the supply expense to Standard Offer Service and Default Service based on their respective loads.

In 1999, Default Service expense is the product of market price of $35.05 per megawatt-hour ("mwh") and Default Service load. The source of the market price for 1999, of $35.05 per mwh, can be found in D.T.E. 99-107, Information Request DTE-1-27, page 7.

To derive an estimated market price for the first eleven months of 2000, a two-step process was used. First, a ratio was determined based on the 1999 market price and the actual 1999 Boston Edison intermediate-peak power purchases. Second, this ratio was then applied to actual/forecast intermediate-peak power purchases for the first eleven months of 2000. The resulting estimated market price averages $57 per mwh. The market price for December 2000 is consistent with the Company's recent Default Service filing dated October 11, 2000.

The Company then multiplies the market price times the Default Service load to determine the monthly Default Service expense.

Q. How are the Standard Offer and Default Service deferral balances calculated?

A. The monthly deferrals are the difference between revenues and expenses. The deferrals also incorporate an interest component.

Q. Please explain the interest calculation.

A. As described in the Restructuring Settlement, the Standard Offer Service deferral accrues interest at the rate for customer deposits (Restructuring Settlement, § I.B.5(c)). The monthly deferral is the difference between the revenues and the cost of supply for each month. For each month, interest is applied to the prior month cumulative deferral plus one-half the current month's deferral. The monthly interest is then incorporated in the cumulative deferral. The monthly Standard Offer interest calculation can be found on page 9 in Exhibits BEC-RAP-2, and BEC-RAP-3; the monthly Default Service interest calculation can be found on page 10 of the same exhibits.

Q. What are the deferral balances?

A. Exhibit BEC-RAP-2 identifies the deferral balances as of December 31, 1999. The Standard Offer Service deferral balance was $63.5 million and the Default Service deferral balance was $6.6 million.

Exhibit BEC-RAP-3 identifies the projected deferral balances as of December 31, 2000. The Standard Offer Service deferral balance is forecast to be

$114.4 million and the Default Service deferral balance is forecast to be $53.2 million.

Q. Has the Company proposed to implement the Default Service Adjustment Provision at this time?

A. Yes. At this time, the Company has proposed to implement the Default Service Adjustment Provision. The Default Service Adjustment Provision, Tariff M.D.T.E. No. 843, identifies that the Company will reconcile its total cost of purchase power for Default Service supply against its total Default Service revenue, and the excess or deficiency shall be refunded to, or collected from, all customers on a per kwh basis over the following twelve (12) months, with interest. Mr. LaMontagne provides additional detail on the calculation of the default service adjustment charge.

Q. In the Department's approval of the settlement of the Company's outstanding Generating Unit Performance Program proceedings, the Department directed the Company to submit performance data for the Company's fossil-based units for the period March 1, 1998 through May 15, 1998. Does the Company have performance data concerning those units for that period?

A. With the sale of the Company's fossil-based units to Sithe, the Company transferred the operating records of those units, along with the personnel responsible for maintaining those records, to Sithe. The Company, of course, retained the right to access those records and had occasion to do so in connection with the period of time prior to March 1, 1998, when the Company's fuel charge was in effect. The Company is compiling such information and will submit it when it is available.

Q. Does this conclude your testimony?

A. Yes.